

DEPARTMENT OF ECONOMIC DEVELOPMENT

Community Development

Presentation at Historic Preservation Tax Credit Conference

Wednesday November 20,2002

By Skip Becker

Expense Certification Guide

WHY

Service

- Quicker turn around time
- All needed information listed and online
- Consistency

Outcome Measure's

- Increase the # of new and retained jobs through Community Development programs
- Increase the # of new and renovated facilities
- Increase the # of new and rehabbed houses
- Increase the amount of leverage (total project cost - tax credit amount)

Accountability

- Raise the level of assurance
- Remain consistent
- Provide needed outcome information
- Raise the quality of audits
- Level the playing field

Homeowner-Non Income Producing Properties

- Non certified compilation report
- Categories of work are provided
- Back up required to support the compilation: any category of work over **\$25,000.00**. **All** project costs must be included.

Income-Producing Properties Including Rental Housing

- Project size: under ***\$500,000*** total project costs
 - Compilation engagement with representation letter
 - Categories of work provided
 - Back up required:
 - » Draw Sheets
 - » AIA documents signed by the architect
 - » Copies of checks for expenses not included in the other documents

Income-Producing Properties Including Rental Housing

- Project size: over ***\$500,000-\$5M*** total project costs
 - Review engagement with agreed upon procedures
 - » Must disclose relationship between Accountant and project
 - Categories of work provided
 - Back up required:(for eligible costs only)
 - » Draw Sheets
 - » AIA documents signed by the architect
 - » Copies of checks for expenses not included in the other documents
 - » Development/Partnership agreements for expenses that have been incurred but not paid
 - Level of test: Review engagement-***90%***
 - Level of category test: ***100%*** test for categories over ***\$200,000.00***

Income-Producing Properties Including Rental Housing

- Project size: over **\$5M** total project costs
 - Audit engagement
 - » Must disclose relationship between Accountant and project
 - Categories of work provided
 - Back up required:(for eligible costs only)
 - » Development fee and partnership agreement(s) last signed
 - » AIA documents signed by the architect
 - » Final title Draw document
 - In the instance of no draws or AIA documents Backup required:
 - » Bank statements
 - » Checks and invoices reviewed by auditor as needed

SPECIAL NOTE:

The Department of Economic Development reserves the right to ask for any additional information as needed for any of the above projects.

DEPARTMENT OF ECONOMIC DEVELOPMENT

Community Development

Presentation at Historic Preservation Tax Credit Conference

Wednesday November 20,2002

Presented by Skip Becker

**Comparison of Compilation, Review,
and Audit Engagements for Historic
Preservation Tax Credit Program _{a,b}**

Level of Assurance

* *Compilation Engagement-No assurance as to GAAP*

» **Review Engagement-Limited assurance as to GAAP**

? *Audit Engagement-Statements are fairly presented in accordance with GAAP*

Entities covered

**Compilation Engagement-Nonpublic only*

» **Review Engagement-Nonpublic only**

? Audit Engagement-Public or nonpublic

Knowledge of Client's Industry

- * *Compilation Engagement-Knowledge of the accounting principles and practices of the industry and general understanding of the client's business*
- » **Review Engagement-Knowledge same as compilation plus an increased understanding of the client's business**
- ? *Audit Engagement-Extensive knowledge of the economy, the relevant industry, and the client's business [SAS No. 22(AU 311)]*

Inquiry Procedures Required

**Compilation Engagement-Inquiries not required unless information supplied by the client is questionable*

»Review Engagement-Inquiry and analytical procedures required plus additional procedures if the information appears questionable

? Audit Engagement-Inquiry, analytical procedures [SAS No. 56 (AU 329)] and other audit procedures

GAAP Disclosures Omitted

**Compilation Engagement-Substantially all disclosures required by GAAP may be omitted, without restriction on use [Exception, see SSARS No. 3 (AR 300)]*

»Review Engagement-All disclosures required by GAAP must be included or report must be modified to include the disclosures

? Audit Engagement-Inadequate disclosure requires qualified or adverse opinion

Known Departures from GAAP Measurement

**Compilation Engagement-Disclosure required in modified compilation report [Exception, see SSARS No. 3 (AR 300)]*

»Review Engagement-Disclosure required in modified review report

? Audit Engagement-Departure from GAAP requires qualified or adverse opinion

Accountant's Independence

**Compilation Engagement-Accountant does not have to be independent*

»Review Engagement-Lack of independence precludes issuing review report

? Audit Engagement:

Nonpublic company-compilation report[SSARS No. 1 (AR 100)] if not independent

Public company-nonindependence disclaimer [SAS No. 26 (AU 504)] if not independent

Obtain an Understanding of Internal Control and Assess Control Risk

**Compilation Engagement-Not Required*

»**Review Engagement-Not required**

? Audit Engagement-Required by SAS Nos. 55 and 78 (AU 319)

Engagement Letter

**Compilation Engagement-Recommended*

»**Review Engagement-Recommended**

? Audit Engagement-Recommended [SAS No. 83 (AU 310) requires the accountant to obtain an understanding with their client regarding the audit services to be performed and to document that understanding in the workpapers, preferably in the engagement letter.]

Representation Letter

**Compilation Engagement-No mention*

»**Review Engagement-Required**

? *Audit Engagement-Required by SAS No. 85 (AU 333)*

Notes:

a Adapted from Dan M. Guy “Disclosure Needs in Financial Reporting for Closely Held Businesses,” University of Alabama, 1978 Accounting Research Convocation.

b This appendix does not cover engagements relating to personal financial statements, prospective financial information, or reviews of financial statements of public companies.

c Items 1 through 10 apply to all compiled financial statements expected to be used by a third party, as well as compiled management-use-only financial statements submitted to the client with a SSARS No. 1 report. In addition, item 9, the *Engagement letter*, is *required*, not *recommended*, for compiled management-use-only financial statements in which a SSARS No. 1 report is not issued. Section 202 of this *Guide* discusses in detail the items that should be included in the management-use-only compilation engagement letter.

d Excludes interim reviews of public companies. See SAS No. 71 (AU 722).
(Section 621 discusses situations when a SSARS review may be applicable to public entities.)